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SIPDIS

SENSITIVE

STATE FOR E, EB AND EUR/SE
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SUBJECT: TURKISH ECONOMY MARCH 10: AD REF AGREEMENT ON
LOI; MARKETS SERENE

11. (SBU) IMF ResRep advised this morning that Fund staff and GOT officials had reached ad ref agreement on a Letter of Intent, and that IMF Mission Chief had returned to Washington with the draft. We do not have details yet, but understand from ResRep that the two sides reached a compromise agreement on direct tax reform (based on a revised draft of the legislation), and on reducing redundant positions in State Enterprises (GOT agreed to pass decrees eliminating obstacles to laying off SEE employees). The GOT is still talking with the World Bank about how to resolve the issue of direct income payments to farmers in the budget, but Fund staff apparently decided this should not be an obstacle to proceeding. (Note: World Bank Country Director Ajay Chhibber was quoted in the press at mid-day today as saying the Bank could not accept the budget, which he labeled "anti-poor," and would not proceed with its planned \$1.375 billion loan unless the budget was changed. End Note)

12. (SBU) Fund staff hopes to work out some smaller issues over the next 7-10 days via e-mail. Then, the key question will be enactment of the 2003 budget. Finance Ministry and Parliamentary sources told us today that the Planning and Budget Commission is scheduled to complete work on the budget on March 16. The full Parliament could begin debate on the budget as early as March 17. This debate normally takes 10-11 days (i.e., approval around March 28), though the government could make a political decision to limit debate in hopes of enacting the budget sooner.

13. (SBU) Markets remained calm this morning. The lira strengthened to TL 1,608 million/dollar in the interbank market. Yields on the benchmark 1/24/04 t-bill fell slightly from 57.68 to 56.9, and the stock market rose 0.10 percent.
PEARSON